

Borrowing Due to Delay in June State School Aid Payment

Passage of proposed legislation (S2492) will provide district boards of education the ability to enter into short-term loans with the bank of their choice, if needed, due to the delay in the June state school aid payment. All borrowing under this proposed legislation requires department approval and will be granted upon written application and demonstration of need by the board of education as outlined below. Principal on approved loans will be paid directly to the lending bank by the state from the district's state aid payment. In addition, interest on the loan approved by the department will be reimbursed by the state and paid directly to the lending bank. Any interest costs not eligible for payment by the state will be paid directly to the lending bank by the state from the district's state aid payment.

Under the proposed legislation, a board of education may execute and deliver promissory notes on or before June 30 of the current school budget year with a loan effective date no earlier than June 22. The notes must mature on or before the date of payment of the delayed June state school aid payment and may be redeemable prior to maturity. The amount borrowed will constitute a general obligation of the board but will not constitute gross debt for purposes of *N.J.S.A. 40A: 2-43*.

Application Procedures

All districts who estimate a need for cash should first complete the attached cash flow worksheet for the general fund to determine if there will be a need to borrow due to the delayed June payment. See the attached detailed instructions regarding completion of the cash flow worksheet and supporting documentation.

If the cash flow worksheet indicates the need for a short-term loan, then the district should complete the attached "Application for Approval of Loan" and submit it to the County Superintendent **by May 16, 2003**. This application includes the details of the loan to be requested from the bank and must be supported by a letter from the lending bank of the pre-determined interest rate ("predetermination letter"). Formal bidding or quotations are not required under the Public School Contracts Law for this borrowing; however, the department recommends districts seek quotes from more than one institution for the predetermined costs.

All districts have the option to select any bank. Only applications with a predetermination letter will be approved by the County Superintendent for state payment of interest costs. Applications without a predetermination letter may still be approved for a loan and state payment of the principal amount, but cannot be approved for state reimbursement of interest.

Submission of the cash flow worksheet and required supporting documentation (identified with an "*") must be submitted with the application. As indicated in the detailed instructions, any request (line 20 of the cash flow worksheet) that is greater than the district's cash need (line 23) using the district's estimated June 30, 2003

general fund surplus from its 2003-04 proposed budget requires a written explanation. Districts may also submit supplemental information with the application, including their own cash flow report/analysis and the County Superintendent may request additional support as necessary to complete the review. The County Superintendent may only approve a loan up to the amount that the attached cash flow worksheet and other documentation support.

Districts may submit applications to the County Superintendent prior to board approval, but the application will not be acted upon until submission of the board resolution authorizing the loan. The resolution must include the amount of the loan requested and the predetermined interest cost that the board requests state reimbursement.

In summary:

- The loan application, predetermination letter by the lending bank, and cash flow worksheet with required supporting documentation must be submitted to the County Superintendent for review by May 16, 2003.
- The principal amount of the loan requested cannot exceed the amount of the June state school aid payment. The loan amount must be clearly supported by the cash flow worksheet.
- If approved, the state will pay the interest costs of the loan for applications which include a predetermination letter.
- The term of the loan cannot extend beyond the date of payment of the delayed June state school aid payment.
- The payoff of the loan will be made directly from the state to the bank. If the amount of the approved loan is less than the delayed June state school aid amount, then the state will send the difference to the district at the time of payment to all districts of the delayed state school aid amount.

The County Superintendent will issue decisions on all applications received by May 16 no later than **June 2, 2003**. To document the approval, the County Superintendent will complete the attached "County Approval of Loan Application" form for each loan.

When the loan is approved, districts may work with their chosen bank to borrow up to the approved amount. A copy of the signed Promissory Note must be received by the Division of Finance, Office of School Funding, no later than **June 18, 2003** to ensure timely payment and reimbursement to the lending banks.